<u>Q&A Regarding Financial Results for the Fiscal Year Ended March 31, 2022</u>

Date/Time: April 28, 2022 16:30-17:30 JST
Location: Live audio streamed from NEC Headquarters, Tokyo
Presenters: Takayuki Morita, President and CEO (Representative Director)
Osamu Fujikawa, Executive Vice President and CFO

Questioner A

Q: In the Global 5G business, what is your projection with respect to international revenue for the fiscal year ending March 31, 2023 (FY23/3)? Also, how is marginal profit likely to affect those results?

A: We expect about 20% of NEC's ¥110.0 billion revenue forecast for FY23/3 to come from international markets. Revenue is likely to begin increasing in the latter half of FY23/3. Our assumption of strategic expenses for FY23/3 is about the same level as that of FY22/3. In terms of adjusted operating profit, we expect to reduce its loss amount from ¥20.6 billion in FY22/3 to ¥8.0 billion in FY23/3. Please think of this as an improvement to profitability through increased revenue.

Q: When it comes to NEC's development of 5G products, what outcomes do you anticipate from the strategic expenses, including those involving alliances with other companies?

A: This entails two domains, that of 5G base stations (RAN) and that of 5G core networks. We need to keep expanding our menu of options when it comes to radio units (RUs) for 5G base stations. As such, NEC has been developing more sophisticated products in domains where it is possible to get the most out of 5G advantages, including use of beamforming technology. NEC's development efforts in this regard will extend from the end of FY23/3 through into FY24/3. Meanwhile, although NEC has central units (CUs) and distributed units (DUs) that support both 5G and 4G technologies, NEC will provide support for 4G through alliances while persisting with development of NEC's own products when it comes to 5G. In regard to 5G core networks, NEC is also able to deploy products in international markets that it supplies to NTT and Rakuten Mobile with 5G standalone systems. NEC is ready for commercial shipments while development of certain products of its own continues.

Q: "Adjustments" in FY23/3 will increase by ¥17.3 billion compared to the previous fiscal *year. Could you please explain the reasons for that increase?*

A: The increase is due to a decrease in profit of approximately ¥10.0 billion resulting from the lack of one-time profits in relation to real estate and royalties that had been recorded for FY22/3 and an increase in costs, etc. Meanwhile, the forecast for adjustments in FY23/3, enlists the assumption of no one-off events. It also factors in the prospect of some buffers.

Questioner B

Q: With respect to NEC's digital government and digital finance (DG/DF) business, could you please provide details on the low-profit business sold by KMD and Avaloq in FY22/3, along with the impact that has on NEC's earnings? Also, given that KMD also wound down certain businesses during the previous fiscal year, what are your plans in that regard going forward?

A: The decision was made to sell off Avaloq's low-profit business constituting printing operations and other such outsourcing given that such operations were deemed non-core business amid a scenario of an increasing shift to digitalization. The decision was made to sell off KMD's product resale business given its low profitability, though it did generate positive earnings. Revenues of both companies combined amount to approximately ¥14.0 billion. NEC acquired KMD with the knowledge that operations such as pension business were to be wound down during FY22/3. These recent sales help to further improve NEC's portfolio, which is in line with expectations held when the acquisitions were made. Meanwhile, the divestitures will result in gains on sales, albeit insubstantial in terms of monetary amount.

Q: In the DG/DF business, revenue in FY22/3 has decreased by ¥14.0 billion due to divestitures. As such, revenue in the DG/DF business has effectively remained unchanged relative to the previous fiscal year's revenue of ¥252.7 billion, which seems insufficient. What are your thoughts on that?

A: For one, we have been subject to prevailing uncertainties in Europe and elsewhere. In addition, revenue will be bolstered if synergies concurrently being pursued deliver results, given that the forecast for FY23/3, does not include prospects of business expansion in Asia, for instance. As such, we believe that these projections for FY23/3, are at sufficiently achievable levels. Moreover, we intend to steadily carry out investment necessary, particularly in terms of post-acquisition framework development and streamlining.

Q: NEC's orders for IT services held strong during the third quarter of FY22/3. Did that trend persist during the fourth quarter as well?

A: During the fourth quarter of FY22/3 orders increased by 5% year on year when excluding special demand for PCs of the GIGA School Project in the previous fiscal year. Whereas orders from SMEs have yet to mount a recovery, orders in the healthcare sector have been strong and those with respect to the private sector realms of finance, manufacturing and retail / services have been very favorable. We deem that results in terms of orders from large enterprises have been very robust, given that orders including those from SMEs increased by 5%.

Questioner C

Q: In FY22/3, a one-time decrease of tax expense resulted in substantially higher adjusted net profit than that of the forecast released on January 31, 2022. What did that specifically entail?

A: The decrease in tax expense was a result of employing deferred tax assets, mainly losses carried forward. The decrease in tax expense was due to valuation based on corporate revenue projections. As such, it was not factored into initial projections, which would require consultation with the audit firm. Meanwhile, NEC's deferred tax assets from previous fiscal years have been essentially used up. As such, the notion of significant differences between forecasts and results due to tax expense is unlikely going forward.

Q: Although adjusted net profit is expected to decrease in FY23/3, my understanding is that profit is poised to increase if one is to exclude the effects of lower tax expense for FY22/3. Would I be correct in concluding that this is a result of NEC having entered a phase of growth investment recovery?

A: During FY23/3, we anticipate substantial market opportunities, including those involving 5G and digital transformation (DX). On the other hand, the prospect of steadily gaining a presence in such markets calls for ongoing investment. During FY23/3, we will take on investment amounting to no more than the profits we generate due to growth. This means that we will manage our costs as we seek increasingly higher profit over successive years going forward.

Questioner D

Q: NEC posted ¥37.8 billion in acquisition-related amortization of intangible assets as adjustments between operating profit and adjusted operating profit in FY22/3. Given that, are there any factors that are likely to differ during FY23/3?

A: There are two factors of potential variance that could affect amortization of intangible assets, one of which is the ¥10.0 billion scale of NEC's acquisition of a provider of police-related software in the United Kingdom, and the other of which is Blue Danube Systems, which engages in the 5G business in the United States. These factors do not seem to be sufficient to cause adjustments to substantially vary relative to current amounts.

Q: What are your expectations in the fields of defense and space going forward?

A: I anticipate slightly better outcomes relative to those of FY22/3. Incremental gains seem likely despite effects of timing differences given that business involving public infrastructure consists of many long-term projects.

Questioner E

Q: How do you think NEC's earnings performance is likely to be affected by developments such as the situation between Russia and Ukraine, and surging raw materials prices due to yen depreciation?

A: We feel that the direct impacts of the situation between Russia and Ukraine on our earning results are limited. Moreover, our results may be indirectly affected on a macro level by surging raw materials prices and inflation, and also affected by business conditions. However, we believe that any indirect impacts of such developments will be fully manageable.

As for yen depreciation, a scenario of the foreign exchange rate holding to the current level of 130 yen to the U.S. dollar would culminate in cost increases on the scale of ¥10 billion largely associated with procurement of products and materials. On the other hand, NEC would generate higher profits associated with international revenues on the scale of ¥4 billion to ¥5 billion. As such, the negatives and positives balance out to a negative impact on profit and loss of about ¥5 billion. We will address the issue of higher procurement costs by taking action that includes passing such cost increases on to prices. We feel that the situation is manageable, although it will take some time to adjust to various ramifications of these circumstances.

Questioner F

Q: NEC's strategic expenses in FY22/3 ended up increasing by only ¥26.0 billion rather than the projected increase of ¥32.0 billion over the previous fiscal year. Why the lower amount? Also, in what areas did you decrease outlays relative to the initial plans? Is this level of strategic expenditure outlay sufficient with respect to achieving your adjusted operating profit target of ¥300 billion in Mid-term Management Plan 2025?

A: In the area of Global 5G, strategic expenses increased compared to initial projections for FY22/3. Whereas our initial projections anticipated an increase in such strategic expenses of ¥12.0 billion, they ended up increasing by ¥13.5 billion. This was a result of having accelerated investment, including that for strengthening the global sales structure in step with progress achieved in terms of orders and business. On the other hand, we determined that few negative consequences would emerge if we were to cut costs in the base businesses that ended up incurring lower strategic expenses. The growth strategies have actually come into greater focus without losing steam as a result of our having cut strategic expenses by a total of ¥6.0 billion compared to initial projections. Given that the actual amount of investment amounts to ¥73.0 billion, it was ¥26.0 billion higher than in the previous fiscal year. We will generate and recover profits that exceed outlays as we keep strategic expenses at that level. Please be aware that we are now in the investment return phase.

Q: I had thought that NEC was to consider countermeasures including withdrawals from its underperforming businesses after having selected operations subject to such action by the end of FY22/3. That said, are there any businesses subject to downsizing during FY23/3? Also, have you factored such results into NEC's financial forecasts for FY23/3?

A: We have selected 16 low-profit businesses, of which six are subject to structural optimization as of the end of FY22/3. We have also drawn up specific plans for reforms that are to be carried out during FY23/3. This will result in profit margin gains with respect to the underperforming businesses. We have accordingly factored the notion of those businesses achieving profit margin gains of more than 1% into our projections for FY23/3.